

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, May 18, 2007  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Keith Meredith, Chair  
Mr. Michael Townsend, Vice Chair  
Mr. David Byers  
Mr. Tom Connelly  
Mr. Jaime Gutierrez  
Mr. Chris Harris  
Mr. Jim McLaughlin  
Mr. Lawrence Trachtenberg  
Mr. Steven Zeman

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Steve Zeman moved to approve Refunds, Death Benefit, Retirements and System Transfers for the month of March, 2007;

*And*

Approve the minutes of the April 20, 2007, Regular Session of the ASRS Board;

*And*

Approve the applications and agreements with

- Town of Marana
- Patagonia Montessori Elementary School, Inc.

Mr. Dave Byers seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**3. Approval, Modification or Rejection of Recommended Administrative Law Judge's Decision**

Mr. Thomas McClory, Assistant Attorney General, addressed the Board regarding Gary Wackerly. Mr. McClory explained that Mr. Wackerly received an overpayment of Long Term Disability (LTD) benefits and the administrative law judge found that Mr. Wackerly was responsible for the repayment of these monies.

Mr. Wackerly attended the Board meeting by teleconference and requested to address the Board. Mr. Wackerly stated that he was told by the ASRS on several occasions that he did not need to take any action when he was receiving the overpayment. He also stated that during his divorce proceedings an ASRS employee told his ex-wife's divorce lawyer that no funds were owed to the ASRS by Mr. Wackerly. Mr. Wackerly stated that he made an effort to correct the situation and should not be held accountable for the monies due back.

Mr. Dave Byers, Trustee, stated that Mr. Wackerly could be given more time to produce evidence of his arguments and the Board could then rehear the case. Mr. Byers also suggest that the deductions coming out of Mr. Wackerly's retirement benefit should be stopped until the case could be reheard by the Board.

**Motion:** Mr. Dave Byers moved to accept the administrative law judge's ruling regarding Gary Wackerly;

*And*

To grant Mr. Wackerly 90 days to file a request for rehearing;

*And*

To suspend the LTD repayment deductions taken from Mr. Wackerly's retirement benefit for 90 days.

Mr. Jaime Gutierrez seconded the motion

By a vote of 8 in favor, 1 opposed, 0 abstentions, and 0 excused, the motion was approved.

Mr. McClory stated that unless any of the Board members moved to reconsider Regina Dunn's case the motion from the April Board meeting would stand.

No Board members moved to reconsider Regina Dunn's case.

Mr. Tom McClory addressed the Board regarding Gloria Chavez.

**Motion:** Mr. Dave Byers moved to accept the administrative law judge's ruling regarding Gloria Chavez.

Mr. Steve Zeman seconded the motion

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding 2007 ASRS Legislation**

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, presented the current status of bills affecting the ASRS. The Board was updated regarding the status of HB 2145, HB 2147, HB 2148, SB 1060, SB 1199, HB 2311, and SB 1556.

#### **5. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance Overview for the Quarter Ending March 31, 2007**

Mr. Terry Dennison, Principal, Mercer Consulting, addressed the Board regarding the Total Fund Performance Overview for the period ending March 31, 2007, highlighting specific areas of interest and concern.

Mr. Dennison reported on the Total Fund Performance for the period ending March 31, 2007.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Inception</b>
<b>Total Fund</b>	2.2%	11.3%	10.3%	8.5%	9.2%	11.0%
<b>Benchmark*</b>	2.1%	12.5%	10.1%	8.1%	7.9%	10.8%
<b>Excess Return</b>	0.1%	-1.2%	0.2%	0.4%	1.3%	0.2%

\* Interim Benchmark (current): 39% S&P 500, 7% S&P 400, 7% S&P 600, 27% LB Aggregate, 19% MSCI ACWI ex US, and 1% NPI+100 bps.

Note: Interim Benchmark incorporates a proration of 5% real estate and 5% private equity to large cap equity.

Policy History:

- 7/1/75-12/31/79 – 40% S&P 500/60% LB Aggregate
- 1/1/80-12/31/83 – 50% S&P 500/50% LB Aggregate
- 1/1/84-12/31/91 – 60% S&P 500/40% LB Aggregate
- 1/1/92-12/31/94 – 50% S&P 500/40% LB Aggregate/10% EAFE
- 1/1/95-6/30/97 – 45% S&P 500/40% LB Aggregate/15% EAFE
- 7/1/97-12/31/99 – 50% S&P 500/35% LB Aggregate/15% EAFE
- 1/1/00-9/30/03 – 53% S&P 500/30% LB Aggregate/17% EAFE
- 10/1/03-12/31/06 – 53% S&P 500/26% LB Aggregate/15% MSCI EAFE/ACW ex. US(1)/6% NCREIF+100 bps.
- 1/1/07 – present – 31% S&P 500/7% S&P 400/7% S&P 600/26% LB Aggregate/18% MSCI ACWI ex US/6% NPI+100 bps/5% Russell 3000+300 bps

(1) MSCI EAFE/ACW ex. US Benchmark is the MSCI EAFE prior to 10/1/05 and the MSCI ACW ex. US thereafter.

## **6. Presentation, Discussion and Appropriate Action Regarding the U.S. Large Cap Equity Managers Reporting on the Quarter Ending March 31, 2007**

Mr. Gary Dokes, Chief Investment Officer, and Ms. Sarah Wadsworth, Senior Portfolio Analyst, addressed the Board regarding the U.S. Large Cap Equity Managers reporting on the quarter ending March 31, 2007. Ms. Wadsworth stated that as of March 31, 2007, the total market value of the ASRS U.S. Equity Large Cap Asset Class was \$9.6 billion, or approximately 36% of the ASRS total fund. The U.S. Equity Large Cap Asset Class policy target range is 26-36%.

Since the inception date of June 30, 2002, the ASRS Large Cap Asset Class has outperformed the S&P 500 by 19 basis points.

On November 1, 2006, Jacobs Levy Equity Management began managing approximately \$200 million in a 120/20 long/short strategy.

## **7. Presentation, Discussion and Appropriate Action Regarding the Unitization of ASRS Funds**

Mr. Tom Williams, Fixed Income Portfolio Manager, addressed the Board regarding the Unitization of ASRS Funds. Mr. Williams stated that the ASRS Plan, System, and Health Benefit Supplement (HBS) program monies are commingled and managed as one pool of assets utilizing the same asset allocation policy. The ASRS Long-Term Disability (LTD) program monies are segregated and managed as a separate pool of assets with an asset allocation policy which is similar but not identical to the Pension Fund asset allocation policy.

Over the past several years, discussions have occurred regarding the issues associated with the commingled investment management of Plan, System, and HBS program assets. Though historically

appropriate and efficient from both an investment and an operational perspective, commingling the assets of programs with different liability structures and therefore managing them to the same asset allocation policy may no longer be appropriate.

Effective July 1, 2007, ASRS assets will be unitized and the Plan, System, and HBS will be assigned a pro-rata share of units based on the June 30, 2007 final valuation for each program.

The primary benefit of converting to a unitized structure is to enhance the investment structure to allow for greater flexibility to modify Plan, System, and HBS asset allocation policies and investment strategies when appropriate. Additionally, unitization allows for investment holdings, cash flows, and investment activity to flow down to each plan level, as opposed to the current structure in which these are captured solely at the Pension Fund level.

During FY 07-08, the ASRS will study the System and HBS with the objective to affirm or recommend to the Board changes to the investment strategy and/or asset allocation policy of each program.

## **8. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections**

Dr. Keith Meredith, Chair, stated that the Board elects a Board Chair and Vice Chair each year.

**Motion:** Mr. Larry Trachtenberg moved to elect Mr. Michael Townsend as Board Chair.

Mr. Chris Harris seconded the motion

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**Motion:** Mr. Jaime Gutierrez moved to elect Dr. Keith Meredith as Board Vice Chair.

Mr. Larry Trachtenberg seconded the motion

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

## **9. Director's Report**

Mr. Paul Matson had nothing to add to the written report.

## **10. Possible Presentation Regarding Board Committee Updates**

Mr. Jaime Gutierrez, Chair, External Affairs Committee, stated that there would be no External Affairs Committee meeting in June.

Mr. Larry Trachtenberg, Chair, Investment Committee, stated that there would be an Investment Committee meeting on July 10, 2007.

Mr. Michael Townsend, Chair, Operations Committee, stated that there would be an Operations Committee meeting on June 7, 2007.

## **11. Board Requests for Agenda Items**

There were no requests for future agenda items.

## **12. Call to the Public**

Mr. Bill Peltier, Retiree, addressed the Board regarding the Permanent Benefit Increase (PBI). Mr. Peltier stated that he would appreciate a very basic explanation of how the decision to have or not have a PBI is reached. He also asked when the next PBI would be expected.

Mr. Paul Matson, Director, indicated that there is not expected to be additional PBI's for several years, stated that the ASRS has had several member outreach meetings that addressed the issue and plans on additional notification to members.

## **13. The next ASRS Regular Board meeting is scheduled for Friday, July 20, 2007, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

## **14. Adjournment of the ASRS Board**

Dr. Meredith adjourned the May 18, 2007 Board meeting at 10:42 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Anne Schrode, Secretary

Date

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Paul Matson, Director

Date